STATE OF ILLINOIS

BEFORE THE ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS LIGHT COMPANY	)	
	)	
	)	**Docket No. 02-0837**
Proposed general increase in natural gas rates.	)	
	)	

REPLY BRIEF ON EXCEPTIONS
ON BEHALF OF
CENTRAL ILLINOIS LIGHT COMPANY

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Central Illinois Light Company, doing business as AmerenCILCO, ("AmerenCILCO" or "the Company") has heretofore submitted its Exceptions and Brief on Exceptions. Exceptions and Briefs on Exceptions were also filed on behalf of the Staff of the Illinois Commerce Commission ("Staff"), Caterpillar, Inc. and Archer-Daniels-Midland Co. (jointly "IIEC"), the Attorney General of the State of Illinois and Citizens Utility Board (jointly "AG/CUB"), and Business Energy Alliance and Resources LLC ("BEAR"). AmerenCILCO submits this Reply Brief on Exceptions in response to the Exceptions of Staff and the other parties to this proceeding.

I. STAFF EXCEPTIONS

Staff raised numerous points and issues in its Exceptions, some of which are contested by AmerenCILCO, and some of which are not. AmerenCILCO will respond to each point raised by Staff.

a. Depreciation Study Recommendation

Staff requests that the Order include a provision directing AmerenCILCO to perform a depreciation study prior to its next gas or electric rate case and not more than five years prior to its future gas and electric rate cases. AmerenCILCO does not oppose this proposal.

b. Known and Measurable Plant Additions

Staff requests that the Order include a more detailed description of Staff's original position with respect to known and measurable plant additions. Specifically, Staff proposes that the Order spell out that Staff originally proposed an adjustment to reduce the plant additions from $14,139,000 to $12,339,000 to correct an inadvertent duplication of plant already included in rate base. AmerenCILCO agreed that the correction should be made, and included only the lower amount in its revised rate base calculations. Thus, the higher amount was not part of the final rate base and there is no confusion about what is in or proposed to be in rate base, so that Staff's proposed clarification is not necessary.

However, if the Commission determines that Staff's original proposal should be further described in the Order, then the Order should also spell out that Staff's witness proposed to include all the plant additions (after removal of the duplication) in the amount of $12,339,000, net of depreciation in the amount of $743,000, in the recommended rate base to be approved by the Commission in this proceeding. Staff included these plant additions in rate base pursuant to the provisions of Part 285, the Commission's test year rules. (Tr. 421.)

Staff also proposes additional language to describe Staff's reason for changing its position, after the record was marked "Heard and Taken," to recommend that no known and measurable plant additions be included in rate base. Staff's new language would impose, after the record is closed, a new requirement that AmerenCILCO provide "evidence" why the known and measurable plant additions should be included in rate base, given that the plant in service was experiencing a net decline as a result of increases in the reserve for depreciation after the test year. As pointed out in AmerenCILCO's Brief on Exceptions, the Commission has already held in Docket

No. 01-0423 that a historical test year should not be adjusted to reflect post-test year increases in accumulated reserve for depreciation, and that the rate base may include known and measurable post-test year plant additions pursuant to Section 285.150(e) of the test year rules without accounting for post-test year increases in accumulated depreciation. Staff's contention that AmerenCILCO should have accounted for post-test year depreciation is directly contrary to the Commission's prior decision. Moreover, Staff cannot demonstrate there would be an overall decline in rate base if all other rate base items, including those that are not yet certain as to total cost or time of completion but would be forecast as part of a future test year, were considered in this proceeding. In fact, if the cash working capital requirement were included in rate base, the increase in accumulated depreciation would be more than offset by increases in rate base.

Further, AmerenCILCO provided "evidence" why the plant additions should be included in rate base, when AmerenCILCO witness Getz pointed out that Section 285.150(e) of the Commission's test year rules specifies that known and measurable plant additions may be included in rate base. (CILCO Rebuttal Exhibit 6.2, p. 6.) It would be more appropriate to require Staff to explain why it now proposes to exclude the known and measurable plant additions from rate base, when its witness, with full knowledge of the claimed increases in post-test year accumulated depreciation, agreed that the plant additions should be included in rate base. Further, because Staff does not contend that accumulated depreciation itself should ever be adjusted, only that plant additions should be offset against accumulated depreciation, Staff should be required to explain why it is only when there are plant additions that accumulated depreciation should be taken into account, thereby penalizing utilities only if and to the extent they have known and measurable plant additions.

Neither Staff nor any other party to this proceeding has ever disputed that the plant

additions in the amount of $12,339,000 are known and measurable within the definition of Section 285.150(e) of the Commission's rules. Staff is fully aware of the decision of the Appellate Court that it is error not to include plant additions in rate base when they qualify as known and measurable pursuant to Section 285.150(e). Staff is also aware of the many Commission decisions in which known and measurable plant additions have been included in rate base without any "evidence" to explain why they should be included without considering post-test year increases in the reserve for depreciation. Staff is further aware of the decision in *Illinois Power Company,* Docket No. 01-0432, where the Commission refused to exclude plant additions that went into service after the date when post-test year accumulated depreciation was reflected in rate base, and the decision in *Commonwealth Edison Company*, Docket No. 01-0423, where the Commission specifically rejected a proposal indistinguishable from that being made by Staff in this proceeding. Finally, Staff is aware of the Illinois Appellate and Supreme Court holdings that the Commission may not change a test year procedure without explanation and without warning to utilities that may be prejudiced by the change. Yet Staff is now proposing that the Commission do just that. Staff proposes that the Commission should proceed as if the prior cases never occurred, and adopt a new requirement in violation of its own rules, contrary to its own prior decisions, and contrary to the testimony of Staff's witness in this proceeding, and along the way deny due process to AmerenCILCO, all without any explanation whatsoever why such a drastic change is appropriate in this proceeding.

AmerenCILCO described in detail in its prior briefs, particularly its Brief on Exceptions, why Staff's post-hearing change of position cannot be accepted in this proceeding. Staff is encouraging the Commission to enter an Order that is without doubt in violation of settled case law and the Commission's previously established regulatory procedures. Without mentioning the

case, Staff is urging the Commission to take a position exactly opposite to the Commission's ruling made less than five months ago in *Commonwealth Edison Company,* Docket No. 01-0423, without any attempt by Staff to explain why a different result is appropriate in this proceeding. If Staff had a justification for proposing the change, Staff surely would have offered it. For the reasons stated herein and in AmerenCILCO's prior briefs, the known and measurable plant additions must be included in rate base.

c. Working Capital - Gas in Storage

Staff contends that the Proposed Order erred in refusing to adjust the test year cost of gas in storage to reflect lower 2002 storage inventory costs. Staff repeats all its prior arguments and essentially contends that because there was a decrease in gas storage costs from 2001 to 2002, the Commission should blindly accept the decreased amount, even though the overwhelming evidence shows that the 2002 costs are not representative of the current or the future cost of gas that will be injected into storage. Staff does not dispute that the cost of gas during the first four months of 2003 was more than double the cost during the same period of 2002. However, Staff insists that AmerenCILCO would not likely be injecting gas into storage during those months, so the cost of gas during that time is not representative of the cost of gas that will be injected into storage during the summer of 2003. Staff apparently believes the Commission should assume that the price of gas will suddenly decline to 2002 levels after April of 2003, an assumption that is both illogical and contrary to what Staff knows or should know about the price of gas during 2003.

Staff knows or could easily determine that the monthly PGA filings made by AmerenCILCO during the 2003 injection period are consistent with the 2001 test year gas costs and are substantially higher than the gas costs experienced during 2002. Pursuant to the provisions of

Section 200.640 of the Commission's Rules of Practice, the Commission may take administrative notice of schedules regularly filed with the Commission pursuant to statute or Commission rule, and also of generally recognized scientific or technical facts within the specialized knowledge of the Commission. Pursuant to these provisions, AmerenCILCO requests that the Commission take administrative notice of the cost of gas as shown by AmerenCILCO's PGA filings for the months of July, August and September of 2002 and 2003, months when gas is injected into storage. Copies of the pertinent parts of the filings are attached hereto as Appendix A. The attachments show that the commodity cost of gas reflected by the PGA filings was $6.59 per MCF for July of 2003, $5.20 per MCF for August of 2003, and $5.14 per MCF for September of 2003. These 2003 costs compare with PGA commodity costs of $4.12 per MCF during July of 2002, $3.96 per MCF during August of 2002, and $4.40 per MCF during September of 2002. Thus, gas prices for July, August and September of 2003 are 60%, 31% and 18% higher than the prices during the corresponding months of 2002. Clearly, the cost of gas in storage during 2002 is not representative of the current and future cost of gas that will be injected into storage, and Staff's proposal to use 2002 costs must be denied.

Staff repeats its argument that it had an additional "undisputed reason" for using 2002 storage prices. According to Staff, because a two-year storage lease was renewed during 2001, it was more appropriate to use the continuous view of storage that existed during 2002. Staff complains that AmerenCILCO did not dispute this statement. There was nothing to dispute. The two-year length of the storage facility lease raised an issue only as to whether the lease would be renewed in 2003. It was renewed, and the fact that the lease was renewed during 2001 and again in 2003 is totally unrelated to the issue of whether the 2002 cost of gas in storage reasonably reflects

the cost of gas when the new rates will go into effect. Staff's argument on this point is not relevant, and Staff's Exceptions must be rejected.

d. Original Cost Rate Base

AmerenCILCO has no objection to Staff's request at page 6 of its Exceptions that the Commission find the original cost of gas plant in service as of December 31, 2001, but the finding should include the correct amount, which is $467,745,000. (See AmerenCILCO's Exceptions, p. 2.)

e. Depreciation Expense Related to Plant Additions

Staff urges again that the Order explain Staff's original position with respect to plant additions and related depreciation. Staff's original proposal was to remove a duplication of new plant, a proposal that was not opposed. As AmerenCILCO pointed out above, there is no confusion with respect to the contested issues, and no need for further explanation. However, as above, if further explanation is given, it should also describe that Staff's witness originally agreed that the non-duplicative plant additions should be included in rate base, and the related depreciation on that plant should be recovered as an operating expense.

Staff argued in its prior reply brief that if the plant additions are not in rate base, the depreciation related to the plant additions should not be recovered through operating expenses. Staff has now apparently abandoned that position, and proposes that the Order provide instead that the depreciation is disallowed for the reasons specified for denying inclusion of the plant additions in rate base, that is, depreciation should not be allowed on new plant if net plant in service is declining. As AmerenCILCO explained in its Brief on Exceptions, even if net plant were declining because of increases in accumulated depreciation, this would not be a ground for disallowing depreciation expense. Another example may further explain why Staff, and the Proposed Order, are in error on

this issue. Assume that the net utility plant in service is $200 million at the end of 2001. Assume that because of increases in the reserve for depreciation during 2002, the net utility plant in service at the end of 2001, before including any plant additions during 2002, declined to $190 million as of the end of 2002. For obvious reasons, Staff does not contend that because the original net plant in service is lower at the end of 2002, the ongoing depreciation expense on that plant should be disallowed, in whole or in part. It is equally obvious that if new plant was added during 2002, so that net plant at the end of 2002 was $198 million, depreciation on the new plant added during the year should not be disallowed. To the contrary, because new depreciable plant was added during 2002, the amount of depreciation expense during 2002 should be higher than the depreciation expense during 2001. For the same reasons in this proceeding, the mere fact that depreciation on existing plant in service may cause net plant in service to be lower after the end of the test year is not a ground for denying recovery of depreciation on the existing plant or the new plant. Staff's arguments must be rejected, and AmerenCILCO's Exceptions on this issue should be adopted.

f. Cost of Capital and Rate of Return

Staff notes that it has "no substantive exceptions" to the Proposed Order's determinations of the cost of capital and rate of return. Hence, Staff's proposed replacement statements are mainly cosmetic and are unnecessary. The record in this case consists of thousands of pages of testimony, exhibits and briefs so that the Proposed Order cannot as a practical matter paraphrase and summarize all the various positions of all parties to the complete satisfaction of every party. Except for obvious typographical errors or omissions of a party's position that is necessary to support a change to the Proposed Order's outcome, the exceptions are superfluous. Staff's suggested changes are unnecessary because the Proposed Order does not purport to expressly rely

upon the alleged misstatement of Staff's position.

g. Allocation of Storage Costs and Carrying Cost of Working Gas in Storage

Staff's exceptions to the Proposed Order's determination that transportation customers should bear part of the carrying costs of the Company's working gas in storage should be rejected. AmerenCILCO does not, as Staff claims, "enjoy unfettered access to gas stored in transportation customer banks." First, it would be more appropriate to say the Company must endure rather than enjoy the gas in transportation customers' banks. The positive banks and transportation imbalance overdeliveries to the Company storage fields occupy space in the storage fields that would otherwise be available to the Company to hedge the cost of gas for sales customers who are subject to the PGA. Thus, transportation customers deprive the Company of the opportunity to provide sales customers with the full hedging capability of the storage fields. Furthermore, the Company's access to transportation customers' banks is not unfettered. The Company is limited by operational constraints that do not apply to transportation customers. AmerenCILCO cannot simply cease deliveries from its pipeline suppliers and rely on transportation customer banks or overdeliveries to supply its sales customers during the winter heating system because of the need to maintain adequate pressures to assure reliable deliveries during the entire winter season and on peak capacity days. Transportation customers on the other hand do not face comparable limitations on their use of the Company's working gas. On any given day, transportation customers can nominate and deliver no gas, and rely entirely on the Company's working gas. Staff claims customers who exceed their nominations are "absorbed by the positive bank levels of other transportation customers." Of course, transportation customers' positive bank levels by themselves without the additional working gas provided by the Company would not provide adequate pressure to permit

transportation customers to exceed their nominations. The converse is not true for the Company because the positive banks of transportation are not needed to provide pressure. The positive banks have merely displaced volumes of gas that the Company would have otherwise obtained to further hedge the cost of gas on behalf of sales customers. In other words, the transportation volumes in the storage fields provide no benefit to AmerenCILCO's sales customers, but deprive the sales customers of greater hedging benefits.

Staff is also incorrect that transportation customers obtain no seasonal hedge benefit from the Company's working gas. Again Staff inappropriately tries to distinguish the contents from the container, a distinction that was rejected in the Company's prior gas rate case. Transportation customers will no longer be prevented from accessing their positive banks during the winter season. This improved access allows these customers to build their banks during the non-winter season and rely on the lower cost supplies in their banks during the higher-priced winter season. This hedging is in addition to the ability on a daily basis to forgo nominations and rely on the Company to provide gas. No "penalty" is imposed. Only if the customer has not made up the gas supplied by the Company at the end of the billing month, then the customer pays either the PGA or an average index price which is a proxy for the cost the Company incurs as a result of providing system gas to the transportation customer. Whether the transportation customer relies upon the Company's storage fields to access positive banks or gas from the storage fields when the customer has no positive bank, neither would be possible but for the working gas necessary to maintain the pressure for deliveries. Since working gas makes possible the transportation customers' use of the storage fields for hedging purposes, and also provides the means by which the Company balances transportation customers' usage on a daily basis, part of the carrying costs of the working gas is properly allocated

to transportation customers. This is especially true because the transportation customers' access to storage comes at the expense of sales customers as a result of the reduced hedging capability of the storage fields attributable to the access provided to transportation customers.

Staff's reliance on the Commission decisions in other dockets is misplaced because Staff has not established that the terms and conditions applicable to transportation service in those dockets are equivalent. In those dockets, the customers may be subject to matching nominations with usage within a bandwidth on a daily basis. Daily bandwidth requirements would restrain the extent to which transportation customers could exploit the hedging/supplemental supply function of the storage fields. However, AmerenCILCO transportation customers are not subject to such restrictive bandwidths, and thus it would be inappropriate not to allocate part of the carrying costs of working gas to transportation customers in this case.

h. Residential Rates

Staff's Brief on Exceptions persists in the argument that elimination of the declining block structure is necessary to send a proper price signal to customers. Staff's proposal would clearly not send a proper price signal because it includes a customer charge that does not fully reflect customer-related costs and distorts delivery charges by including in those charges the balance of uncollected customer costs across all therms. Staff claims that an increased charge for the second block of consumption is needed to reflect environmental costs associated with increased use of natural gas by residential customers. However, the record contains no evidence whatsoever that an increase in the cost of natural gas delivery charges will improve the environment. In fact, it could lead to environmental detriment if customers are discouraged from using natural gas and switch to alternatives that are more harmful to the environment. See AmerenCILCO initial brief pp. 48-50;

reply brief pp. 17-18. Staff's amazing response to this deficient showing is that customers probably will not switch to the alternatives because the increased price of the second block is offset by the decreased price of the first block so the cost of natural gas will remain about the same. See Staff reply brief, p. 34. If this response is correct, Staff's proposal amounts to pointless symbolism. Aside from not having the intended environmental benefits, Staff's proposal would increase the likelihood of either over or under collection of the cost of serving customers based upon weather-related usage variations. A flat delivery rate design when the customer charge is not fully cost-based also serves to shift costs properly recovered from lower-usage customers to higher-usage customers, whereas the declining block structure reduces the level of intra-class subsidies. (AmerenCILCO Ex. 4.4, p. 1.) For these reasons, the Proposed Order has correctly determined that if full recovery of the customer-related costs is not provided for in a cost-based customer charge, those costs not recovered in the customer charge should be included in the charges for the first block of usage. This approach is consistent with the rate designs of all the major gas utilities in Illinois.

i. Installation of New Services

Beginning at page 16 of its Exceptions, Staff addresses the Proposed Order's recommendation to reject Staff's proposal to mandate the installation of new services within 15 working days. Staff indicates that it has no arguments beyond those described in the Proposed Order, but nevertheless repeats Staff's belief that the mandate is appropriate to remove ambiguity from AmerenCILCO's existing tariff provision that the Company will "endeavor to install new services within a reasonable time." (Staff Exceptions, p. 16-17.) Staff fails to address that there have been no customer complaints with respect to the tariff provision in question or the installation of new services. Thus, the claim of ambiguity is without merit. Further, if there is an ambiguity in

the existing tariff provision, the correct answer is to remove the provision, which would make AmerenCILCO's tariffs more like those of other utilities, instead of adopting Staff's proposal to impose upon AmerenCILCO an unnecessary requirement that other utilities do not have.

Staff argues that its proposed tariff provision, as revised by Staff, addressed all the concerns raised by the Company, and if there were still problems, the Company should have proposed further revisions. This argument assumes that a change in language could remove the ambiguities latent in Staff's proposal, an assumption that AmerenCILCO disputes. For all the reasons stated in AmerenCILCO's prior briefs and in the Proposed Order, Staff's Exceptions on this issue should be denied.

j. Effective Date of Tariff Sheets

Staff requests that the Order be revised to provide that new tariffs filed by AmerenCILCO reflect an effective date not less than five working days after the date of filing. AmerenCILCO does not oppose this request, provided the final Order in this proceeding is entered in time to permit the new tariffs to become effective within 11 months after filing, as mandated by statute. 220 ILCS 5/9-201(b). Failure to meet this deadline could affect the rights not only of AmerenCILCO, but also of other parties to this proceeding, for example, transportation customers who no longer want their positive banks subject to being frozen.

II. AG/CUB EXCEPTIONS

AG/CUB raise only three issues in their Exceptions. AmerenCILCO will respond separately to each issue, none of which has merit.

a. Pension and Benefits Expense

AG/CUB do not dispute that the Towers Perrin study utilized by AmerenCILCO to

determine pension and benefit expense accurately calculates the expense incurred under the pension and benefit plans that were in effect during the 2001 test year. AG/CUB contend only that because the Towers Perrin report was performed after the acquisition of CILCO by Ameren, use of the report violates the Commission's order approving the acquisition. According to AG/CUB, that order requires that during a period of rate suspension until October of 2005, AmerenCILCO's rates will be based upon the "pre-closing cost of service." This argument treats the Towers Perrin calculation of test-year pension and benefit costs as if it included new costs that arose after the closing. It does not. AmerenCILCO's pension and benefit plans have not changed, and the Towers Perrin report calculates the costs under the pre-closing pension and benefit plans.

AG/CUB argue that the Towers Perrin study would not have been performed but for the acquisition, therefore, the costs shown in that study, to the extent they are higher than a different consultant might have calculated, do not represent pre-closing cost of service. The argument is pure sophistry. In effect, AG/CUB contend that as a condition of the acquisition, AmerenCILCO is not permitted to correctly calculate its pension and benefit costs. There was no such condition in the acquisition approval order and the Exceptions of AG/CUB on this issue must be rejected.

The Commission's order approving the acquisition specifically contemplated the filing of a gas rate by CILCO prior to the closing. Under the heading "Applicants' Statement of Benefits," the Order stated, among other things:

> First, the Applicants state that the Reorganization will bring rate stability to CILCO's customers, with regard to both gas and electric rates. CILCO's electric rates are currently frozen, and, under recently enacted legislation, the Reorganization will extend that freeze for an additional two years. CILCO also commits that, *except with respect to any proposed change in gas base rates filed with the Commission prior to the closing of this transaction*, it will not propose an increase in gas base rates that would become effective prior to October 1, 2005. Additionally, Ameren and

> CILCO natural gas customers will benefit from Ameren's expected increase in buying power in gas purchasing, integration of pipeline transportation and storage agreements, and optimization of gas storage and delivery assets. These expected synergies will allow rate stability during a period when Ameren intends to enhance CILCO's performance. (Italics added.)

During cross-examination, AG/CUB witness Effron did not dispute that all the specified benefits of the acquisition were being achieved. (Tr. 403-406.) There were no other benefits required as a condition of the approval, and AG/CUB's reference to pre-closing cost of service is taken out of context to the extent AG/CUB suggest that all the benefits of the acquisition that were contemplated by the approval order are not being achieved or suggest that AmerenCILCO is not entitled to support fully the gas rate case that was authorized by the approval order.

b. Revenues Adjustment

The AG/CUB Brief on Exceptions incorrectly claims that AmerenCILCO did not oppose the adjustment to historical revenues. In fact, AmerenCILCO's Reply Brief at pages 28 to 29 sets forth the reasons the proposed adjustment should be rejected. AmerenCILCO's rebuttal and surrebuttal testimony also set forth the reasons for its disagreement with the AG/CUB position. (AmerenCILCO Ex. 3.4, p. 3-4; Ex. 3.8, p.2.) The AG/CUB initial brief erroneously argued that AmerenCILCO miscalculated test year revenues under the existing rates because its starting point was the actual base rate revenues collected from customers for each rate class as shown on the books and records of the Company. While AG/CUB may have preferred a different presentation, the Company explained that its exhibits were prepared in accordance with the guidelines set forth in 83 Illinois Administrative Code Section 285.5015(d)(1), which provides:

> The Historical section (Section A) reports revenues for the selected historical year *as shown by the books and records of the utility*, pro forma at present rates and pro forma at proposed rates. Present rates are those rates in effect

on the date of filing the proposed rates.

(Emphasis supplied.)

The Company witness further explained that the difference between the presentation that the Company was required to provide pursuant to Part 285 and AG/CUB witness Effron's presentation, which did not follow Part 285, was an unbilled revenue component. (Tr. 86-87.) The Company did not need to check Mr. Effron's calculation for mathematical errors because it was irrelevant to the requirement of Section 285.5015(d)(1) to show historical revenues as shown by the books and records of the utility. The historical test year revenues under existing rates are presented for informational purposes only, and are not the basis for developing the Company's test year revenue requirement under proposed rates. The Company's new base rate revenue requirement, which is based on the evidence showing the costs incurred by the Company, is used to determine the new rates. The revenue requirement is assigned to each rate class in the cost of service study and the rate design is determined using billing determinants derived from the Company's bill frequencies. The new rates are not based upon the calculation of the historical revenues that are required to be shown by Section 285.5015(d)(1) of the Standard Filing Requirements, and this required calculation of historical revenues includes unbilled usage at average existing rates. (Tr. 87.) Hence, AG/CUB's only real objection is to the requirements of Part 285, which cannot be changed except in accordance with the procedures in the Illinois Administrative Procedure Act for rulemaking. Staff was able to compare the actual sales to the normalized test year that was provided and did not see any inconsistencies. (ICC Staff Ex. 4.0, p. 17.)

c. Capitalized Pension and Benefit Expenses

AG/CUB witness Effron contended that a portion of the pension and benefit expense

should be capitalized to the extent that portion represents costs related to construction of new plant. AmerenCILCO agreed, and transferred the appropriate amount to plant accounts that are included in rate base. In rebuttal testimony, Mr. Effron's only response was that this represented a double counting of amounts that were already included in the 2001 test year. During cross-examination, Mr. Effron conceded that there was no pension expense during the 2001 test year, so there was no duplication of the capitalized pension expenses. He also agreed that to the extent the capitalized benefit expense represented incremental expense that was not recorded during the test year, there was no duplication. (Tr. 406-411.) The capitalized benefits represented only incremental expense. (CILCO Surrebuttal Exhibit 6.9, p. 8.) The Proposed Order accurately reflects these facts and includes the capitalized plant in rate base.

In their briefs and in their Exceptions, AG/CUB offer a new argument, that the capitalized pension and benefits expenses should not be allowed in rate base when known and measurable plant additions are not allowed in rate base. First, AmerenCILCO does not agree with the disallowance of the known and measurable plant additions, for the reasons stated in its prior briefs and above in this brief. Second, AG/CUB witness Effron proposed that the capitalized plant should be disallowed only if it was a duplication of plant capitalized during the test year. As noted above, there was no duplication, so that the amounts should be included in rate base. AG/CUB should not be permitted to "mend their hold" to raise an argument, for the first time after the record is closed, which is inconsistent with the position of their witness. Significantly, although Staff supports AG/CUB's adjustment with respect to known and measurable plant additions, Staff does not support AG/CUB's proposal to disallow the capitalized pension and benefit expense. The Exceptions of AG/CUB on this issue must be denied.

III. IIEC EXCEPTIONS

a. Average and Peak Method of Assigning Costs

In CILCO's last gas rate case (Docket No. 94-0040), the Commission directed CILCO to use the average and peak (A&P) method of assigning costs to gas customers. The A&P method was championed by Staff in that case, and found by the Commission to be the most appropriate cost allocation method. AmerenCILCO used the A&P methodology in performing its cost of service studies in this case, Staff agreed that CILCO's cost of service study was in compliance with the order in the Company's last gas rate case (ICC Staff Exhibit No. 4.0, p. 5), and the Proposed Order approves use of the A&P method in this proceeding.

In its Exceptions, IIEC proposes that the Commission reverse its prior directive to use the A&P method, and mandate use in this proceeding of the average and excess (A&E) method of allocating costs. Caterpillar made a similar proposal in Docket No. 94-0040. The Commission held in that case (Order, p. 67):

> It would be inappropriate to use an A&E allocator with excess demands based on non-coincident demands because the Company plans its T&D system on a coincident peak basis. An A&E allocator using coincident peak demands would also be inappropriate because it is mathematically equivalent to a CP allocator. That leaves the A&P as the only proposed allocator which recognizes that: (1) CILCO's planning process is based on coincident peak demand; and (2) peak demands only partly explain investment in T&D plant. Therefore, the Commission concludes that the A&P method should be adopted for allocation of T&D capacity-related plant.

IIEC's contention that the A&P method double counts the average demand was also raised (See Commissioner McDermott's Dissenting Opinion) and rejected in Docket No. 94-0040. Thus, IIEC's arguments on this issue have already been considered and rejected by the Commission, and should be rejected in this proceeding.

b. Allocation of Supply-Related Storage Costs

IIEC acknowledges that it suggested an alternative method of allocating storage costs to transportation customers, to be applied in the event the Commission determined that transportation customers receive some benefit from the supply function of storage. The Proposed Order adopts IIEC's alternative method of assigning storage costs, and IIEC does not argue that the Proposed Order erred in this determination. However, IIEC offers alternative language for inclusion in the Order in the event the Commission determines not to adopt the recommendation of the Proposed Order on this issue.

Inasmuch as IIEC does not object to its own proposed alternative allocation of storage costs, there is no reason to consider the alternative language proposed in IIEC's Exceptions.

In its Brief on Exceptions, IIEC argues that transportation customers cannot use their stored gas for supply or hedging, because if they exceed the positive bank tolerances or use system gas in excess of available storage, the excess is cashed out at the end of the month. The argument is not relevant. The amount in excess of the PBT that is cashed out at the end of the billing period has nothing to do with the transportation customer's supply and hedging capabilities that serve as the basis for an allocation of part of the storage field supply function. It is the positive bank, not the excess amount cashed out that provides the hedging and supply benefits to transportation customers. Also, a transportation customer can exceed its positive bank on a daily basis without being cashed out, which provides further hedging and supply capabilities. The once per month cashout does not eradicate the transportation customers' supply and hedging capabilities, but merely serves to restrain the exploitation of these capabilities in a way that would unduly disrupt the Company's injection and withdrawal schedules.

AmerenCILCO has repeatedly noted that except on critical days, the transportation customers are free to use Company gas at any time and in any amount they choose. The requirement that they pay for any net use of system gas at the end of the month is the same way sales customers are treated, that is, sales customers must pay for all system gas they have used during the month. Further, as stated immediately above, and also in the response to Staff in this Reply Brief, transportation customers not only benefit fully from the balancing and peaking functions, they also benefit from the supply function of storage. Therefore, the Proposed Order correctly allocated a portion of the storage costs to transportation customers. The brief discussion of the issue in IIEC's Exceptions provides no basis for revising the Proposed Order. In any event, as noted above, IIEC does not oppose the findings in the Proposed Order, but simply offers a "what if" scenario. There is nothing in IIEC's Exceptions to be adopted, and those Exceptions should be denied.

IV. BEAR EXCEPTIONS

BEAR's opposition to the Proposed Order's determination of the customer charge for Rate 600 customers using more than 250,000 therms annually is based on the incorrect belief that the charge was based solely on the "need to install demand meters on these customers." (BEAR Br. on Exceptions, p. 1.) On the contrary, the interval metering device that is added to the meter set for recording daily demand is a relatively minor part of the equipment included in the calculation of customer charge. BEAR's suggestion that the recording device is entirely, or even largely, responsible for the difference in customer-related costs is not supported by any evidence in the record. In fact, the customer charges were based upon the Company's cost of service study, which assigned costs based upon meter size. The customer charge for customers using over 250,000 therms annually is the same for both Rate 600 and Rate 650 because the customer-related equipment

such as the meter and regulator are similarly sized. Obviously, the cost and size of the customer equipment of Rate 600 customers with use exceeding 250,000 therms corresponds more closely to the equipment installed for Rate 650 customers, whose use also exceeds 250,000 therms, than to the smaller use customers in Rate 600. Staff reviewed the cost of service study, design of rate classes and customer charges and found them to be reasonable. (ICC Staff Ex. 4.0R, pp.11-12.)

The $1350 customer charge reflects the cost of meters, regulators and other customer-related equipment required for customers in both Rate 600 and Rate 650 who use more than 250,000 therms annually. BEAR has not shown what the cost-based customer charge for large use customers would be if the minor cost of the recording device were not included in AmerenCILCO's detailed cost of service study. If the customer charge is not allowed to reflect the cost of the larger equipment associated with these customers, the costs of service will be shifted to the smaller customers in Rate 600. A cost-based customer charge avoids the situation where these large customers are being subsidized by smaller customers.

Establishing like customer charges for like customers has the added advantage of assuring that the Company will be able to consistently collect the costs of the equipment installed to serve these large customers regardless whether they are using Rate 600 or Rate 650. While this was an additional reason that AmerenCILCO cited in support of the proposed customer charge, BEAR erroneously attempts to portray it as the only reason. BEAR also attempts to create the incorrect impression that no Rate 600 large use customers currently have demand recording devices installed. The record does not support this contention, and while one large use grain drying customer may not have a demand recording device attached to its large meter set, that is in no way indicative of the status of the entire group of the large use Rate 600 customers. Large customers impose comparable

operational demands on the Company's gas delivery system and any large use Rate 600 customer currently without a demand recording device will have the minor piece of customer equipment installed. (CILCO Ex. 4.0, p. 8). Given the increased access to storage by transportation customers that has been approved by the Proposed Order in this case, it is even more important now to monitor the daily usage of large Rate 600 customers.

CONCLUSION

For all the reasons set forth in AmerenCILCO's Brief on Exceptions, and in this Reply Brief on Exceptions, AmerenCILCO respectfully submits that its Exceptions should be approved, and the Exceptions of Staff, IIEC, AG/CUB, and BEAR should be resolved as set forth above.

Respectfully submitted,

CENTRAL ILLINOIS LIGHT COMPANY,
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By: _____

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CERTIFICATE OF SERVICE

The undersigned, an attorney, hereby certifies that a true and correct copy of the foregoing was served via electronic mail and e-docket filing the 5th day of September, 20003 to the Service List in this proceeding

_____

W. Michael Seidel